

The Commonwealth of Massachusetts



Department of Revenue

Lowell Saltonstall Building,

100 Cambridge Street, Boston 02204

L. JOYCE HAMPERS
COMMISSIONER

April 7, 1982

You purchased a Six Month Certificate of Deposit with a face value of \$10,000 from the Bank. You invested \$3,000 in the certificate and you borrowed the balance of \$7,000 at an annual interest rate of 11.125%. The certificate earned \$562.42. You also purchased a Six Month Certificate of Deposit with a face value of \$10,000 from the Bank. You invested \$4,000 in the certificate and you borrowed the balance of \$6,000 at an annual interest rate of 12.499%. This certificate earned \$623.25. At maturity you received the interest earned on the certificates less the interest and finance charges owed to the banks on the loans.

You ask whether you must include the gross amount of interest earned on the certificates in your income, and whether you may deduct the interest expense attributable to the money borrowed.

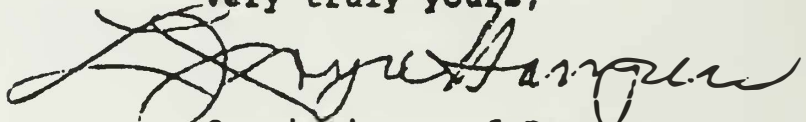
Massachusetts gross income is federal gross income with certain modifications. (G.L. c. 62, s. 2). The entire amount of interest earned on the certificates is includible in your federal gross income. (IRS Letter Ruling 8051033). For Massachusetts income tax purposes there is no deduction for interest and other expenses which are incurred in the production of investment income other than rents and royalties. (L.R. 81-6).

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The entire amount of interest earned on the certificates must be reported on your Massachusetts income tax return Form 1, Part III. The interest expense on the borrowed money is not deductible.

Very truly yours,



Handwritten signature of Gary Hargen in cursive script.

Commissioner of Revenue

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